



# COUNTY OF LOS ANGELES

## FIRE DEPARTMENT

1320 NORTH EASTERN AVENUE  
LOS ANGELES, CALIFORNIA 90063-3294  
(323) 881-2401

P. MICHAEL FREEMAN  
FIRE CHIEF  
FORESTER & FIRE WARDEN

March 17, 2010

TO: EACH SUPERVISOR

FROM: P. MICHAEL FREEMAN

### FINANCIAL PLAN – UPDATE #3

Last year, we developed a Financial Plan for the Consolidated Fire Protection District (District). This plan, which is based on a three-year financial forecast, provides a methodical approach to documenting the financial needs and status changes as they occur in the District. To date, there have been two updates of the plan because of significant financial changes that have occurred.

The District's current financial stability is due to the continuing hiring freeze of non-emergency positions, realignment of critical functions resulting in cost savings, other expenditure curtailments, and the use of one-time funds previously designated for other purposes. So far, it has not been necessary to reduce emergency services, but this will become necessary unless ongoing revenue is significantly increased.

Since the voters were provided the opportunity to increase ongoing revenue for the District in 1997 before emergency service cuts were made, we plan to do likewise now. Such an increase would best be achieved through a ballot measure in June 2011. If approved, this measure would implement a supplemental cap on the Special Tax, allowing greater flexibility in meeting fluctuations in property tax revenue as needed (see Financial Plan Appendices A and D).

Included with this communiqué is the Financial Plan Update #3. It addresses the short and long term impact of recent funding reductions (as reported on January 6, 2010) and a detailed assessment of what actions will be required in the near future to maintain current emergency service levels.

SERVING THE UNINCORPORATED AREAS OF LOS ANGELES COUNTY AND THE CITIES OF:

AGOURA HILLS  
ARTESIA  
AZUSA  
BALDWIN PARK  
BELL  
BELL GARDENS  
BELLFLOWER  
BRADBURY

CALABASAS  
CARSON  
CERRITOS  
CLAREMONT  
COMMERCE  
COVINA  
CUDAHY

DIAMOND BAR  
DUARTE  
EL MONTE  
GARDENA  
GLENORA  
HAWAIIAN GARDENS  
HAWTHORNE

HIDDEN HILLS  
HUNTINGTON PARK  
INDUSTRY  
INGLEWOOD  
IRVINDALE  
LA CANADA FLINTRIDGE  
LA HABRA

LA MIRADA  
LA PUENTE  
LAKEWOOD  
LANCASTER  
LAWDALE  
LOMITA  
LYNWOOD

MALIBU  
MAYWOOD  
NORWALK  
PALMDALE  
PALOS VERDES ESTATES  
PARAMOUNT  
PICO RIVERA

POMONA  
RANCHO PALOS VERDES  
ROLLING HILLS  
ROLLING HILLS ESTATES  
ROSEMEAD  
SAN DIMAS  
SANTA CLARITA

SIGNAL HILL  
SOUTH EL MONTE  
SOUTH GATE  
TEMPLE CITY  
WALNUT  
WEST HOLLYWOOD  
WESTLAKE VILLAGE  
WHITTIER

Each Supervisor  
March 17, 2010  
Page 2

The format of Update #3 will focus on the recommended next steps, relevant timelines and rationale driving the recommendations. Financial projections and planned solutions are contained in the appendices to this third update.

The Fire District will:

- Continue cost containment actions, seek innovative economies, preserve emergency service levels, and use designated funds as necessary.
- Plan for a June 2011 ballot measure for the Special Tax Supplemental Cap to generate needed funds starting in FY 2011-12.
- Explain the District's financial situation to key stakeholders and the public in general beginning in April 2010.

If you have any questions, please call me at (323) 881-2401 or email me at [pfreeman@fire.lacounty.gov](mailto:pfreeman@fire.lacounty.gov).

PMF:at

Attachment – Financial Plan Update #3

c: William T Fujioka  
Jackie White  
Vicky Santana  
Randi Tahara  
Joseph Charney  
Rick Velasquez  
Sussy Nemer

# CONSOLIDATED FIRE PROTECTION DISTRICT OF LOS ANGELES COUNTY



## FINANCIAL PLAN

Update #3  
March 17, 2010

## **Foreword**

The updates to the Financial Plan are designed to provide a current report on the District's fiscal status and the outlook for the three-year period ahead. Since providing Update #2 on November 20, 2009, the most significant change in the Department's financial situation involves the \$16.9 million decline in District property tax revenue projections for Fiscal Year 2009-10 that was reported to the Board of Supervisors on January 6, 2010.

Given the protracted duration of the economic decline and its negative effect on property tax revenues, which is 62% of the Fire District's annual revenue, a timetable for definitive corrective actions will be presented in this third Financial Plan Update.

## **Background**

Dependable and effective public safety services like fire prevention, firefighting, and paramedic services require stable sources of funding that increase as costs of service rise. Property tax usually provides such a funding source. However, even the inherent stability of property tax can be affected in times of prolonged recessions, such as our current circumstance. So now, for the second time in two decades significant downturns in property tax threaten the level of emergency service provided by the District.

In 1992, the Fire Benefit Assessment, with its flexibility for annual adjustment by the Board of Supervisors, preserved emergency service levels despite a decline in property tax revenues and the shift of District property tax for the State's use. In 1997, the current voter-approved Special Tax was created to replace the then obsolete Benefit Assessment. The Special Tax, like the previous Benefit Assessment, contains flexibility for the annual levy to be raised or lowered based on actual need.

The flexibility for setting the annual levy amounts has historically enabled the Special Tax to act as an efficient buffer or "shock absorber," to fill in for property tax downturns. This shock absorber characteristic has enabled the Board of Supervisors to increase the levy amount (up the maximum voter-approved cap), when property tax declined, thereby maintaining emergency service levels, or to lower the annual levy amount when property tax revenue increased.

For nearly thirteen years, the Special Tax has been used as a financial shock absorber. Most of these years, the annual levy amount has been below the voter-approved cap. Even now, in FY 2009-10, the levy is still below the cap. (See Appendix A). Nevertheless, the District's finances have been deeply impacted to the negative and emergency service levels are being sustained through the use of a limited designation fund for financial uncertainty.

## **Current Financial Situation**

The current financial situation of the Fire District is stable, but only as the result of hiring freezes, realignment of critical functions, reductions of certain spending, and the use of one-time funds designated for other purposes. These actions have reduced costs without reducing emergency service levels, but are far from being sufficient enough to counteract the cumulative \$132 million projected loss of property tax the District will experience through Fiscal Year 2012-13. (See Appendix B).

Given current revenue and projected revenue for future years, the use of one-time funds (originally designated for District capital projects, infrastructure growth and budgetary fluctuations) can sustain emergency service levels through part of Fiscal Year 2012-13. Then the District will be facing an unfunded deficit of \$39.7 million and, with zero reserve funds and will be left with no option but to begin shutting down 20-25 engine companies due to the lack of funding.

Recognizing the vast service area of the District and the many unique life-saving services provided, such a drastic shut down must be avoided. Otherwise, the impact will affect the entire region and the life-safety of more than one out of three residents of Los Angeles County. Furthermore, reliance on hiring freezes, expenditure curtailments, and other downsizing, fails to address the sizable imbalance between District property tax revenue levels and minimum emergency service costs.

## **Fire District Efficiencies**

Historically, the Los Angeles County Fire Department has done more with less. Every uniformed firefighter and lifeguard is cross-trained as an Emergency Medical Technician. Firefighter Paramedics routinely fight fire and provide medical service all in the course of a day's work.

Special services, such as urban search and rescue, hazardous materials response, helicopter hoist rescue, swift water rescue, and many fire prevention inspections are performed by cross-trained firefighters. The system of cross-training and dual functions makes the most efficient use of personnel, which is more economical for the taxpayer.

Instead of staffing every engine company with four firefighting personnel each day, the District operates 65% of its engine companies with a staffing level of three, relying upon the response of the paramedic squads to compensate for the absence of the fourth firefighter. For nearly three decades, battalion chiefs have responded to fire and emergency calls without the able assistance of an adjutant that was once commonplace in the fire service.

Emergency service is timely, wide-ranging, and efficient; it is at minimum staffing levels and either needs supplemental funding or the public will have to endure the impact of cuts necessary to remain within budgetary funding limits.

## **Corrective Actions**

To address the short-term financial downturn of property tax, the District will continue the freeze of non-emergency positions, firm restrictions on non-emergency overtime, cuts in discretionary expenditures, and other efficiencies. (See Appendix C). To fill the remaining funding gap between operational costs and available revenue, the District will use one-time funds designated for other purposes to maintain emergency service levels.

While this combination of reductions and expenditures of designated funds maintains critical emergency services, it is a stop gap measure. Further, it depletes funds needed for other essential purposes and depends on cuts which will not be sustainable for the long term.

A long-term solution for the District's funding imbalance is required. For more than 20 years this has been evident; now the current economic decline has exacerbated and highlighted it. It is recognized that eventually over the course of several years, the District's property tax revenue will increase. The gap between operational financial needs and available revenue will narrow, but the timing of such property tax increases is far too slow and unpredictable to perform as a stable emergency service funding source. Therefore, what is needed is a voter-approved increase in the Special Tax Cap to give the Board more flexibility in mitigating fluctuations in property tax revenues.

## **Special Tax Supplemental Cap**

Although the Special Tax, in place since the voters approved it in 1997, has only been levied at its cap once, it is clear that this cap is too low. Given the magnitude of the District's funding shortfall attributable to the loss of more than \$132 million in property tax, a Supplemental Cap is needed.

District residents should be provided the opportunity to increase ongoing revenue to maintain emergency services before any cuts are made. To do this, a Supplemental Cap to the Special Tax will have to be placed on the ballot and passed by a super-majority of the voters. If passed, it would give the Board of Supervisors the authority and flexibility to increase the annual levy necessary to maintain emergency services without drastic cuts that would otherwise be necessary. The built-in flexibility would also allow reductions in the annual levy when property tax revenues increase.

At this time it appears that a Supplemental Cap equal to two and one-half times the current cap would be necessary to ensure enough capability to handle the current crisis, but provide sufficient latitude for the future. (See Appendix D). This supplemental cap increase would be placed on the ballot for voter consideration, but would in no way affect or change the Special Tax as approved on the ballot in 1997 if it is unsuccessful. Based upon 2009-10 rates, the Supplemental Cap would increase the maximum cap on a single-family home from \$62 to \$152. However, current projections show that the levy on a single-family home would only need to be \$108, an increase of \$52 from the current

levy (figures based on current projections of costs and revenue available for FY 2011-12). Proportional increases would apply to all other property use types as well.

If the ballot measure for the Supplemental Cap is unsuccessful, the funding shortfall will directly impact emergency service beginning in 2011-12, and at least 20-25 engine companies would have to be closed to stabilize District funding. This would increase response times to all emergency calls, reduce the District's ability to quickly extinguish structure fires, and greatly limit a sufficient response for wildland fires. Clearly, there would be a widespread reduction in emergency service levels.

### **Time Elements**

Without a Supplemental Cap for the Special Tax in place to offset reduced property tax revenue, more designated, one-time funds must be expended for emergency operations. Given the schedule for county-wide elections, the June 2011 election appears to be the best alternative because it affords time to prepare, to explain the Fire District's needs, to adjust for changes in the economy and to receive newly approved revenue prior to Fiscal Year 2012-13. This June date will also provide reaction time if emergency services must be downsized.

### **Future Actions – Fire District**

- Continue cost containment actions, seek innovative economies, preserve emergency service levels, and use designated funds as necessary.
- Plan for a June 2011 ballot measure for the Special Tax Supplemental Cap to generate needed funds starting in FY 2011-12.
- Explain the District's financial situation to key stakeholders and the public in general beginning in April 2010.

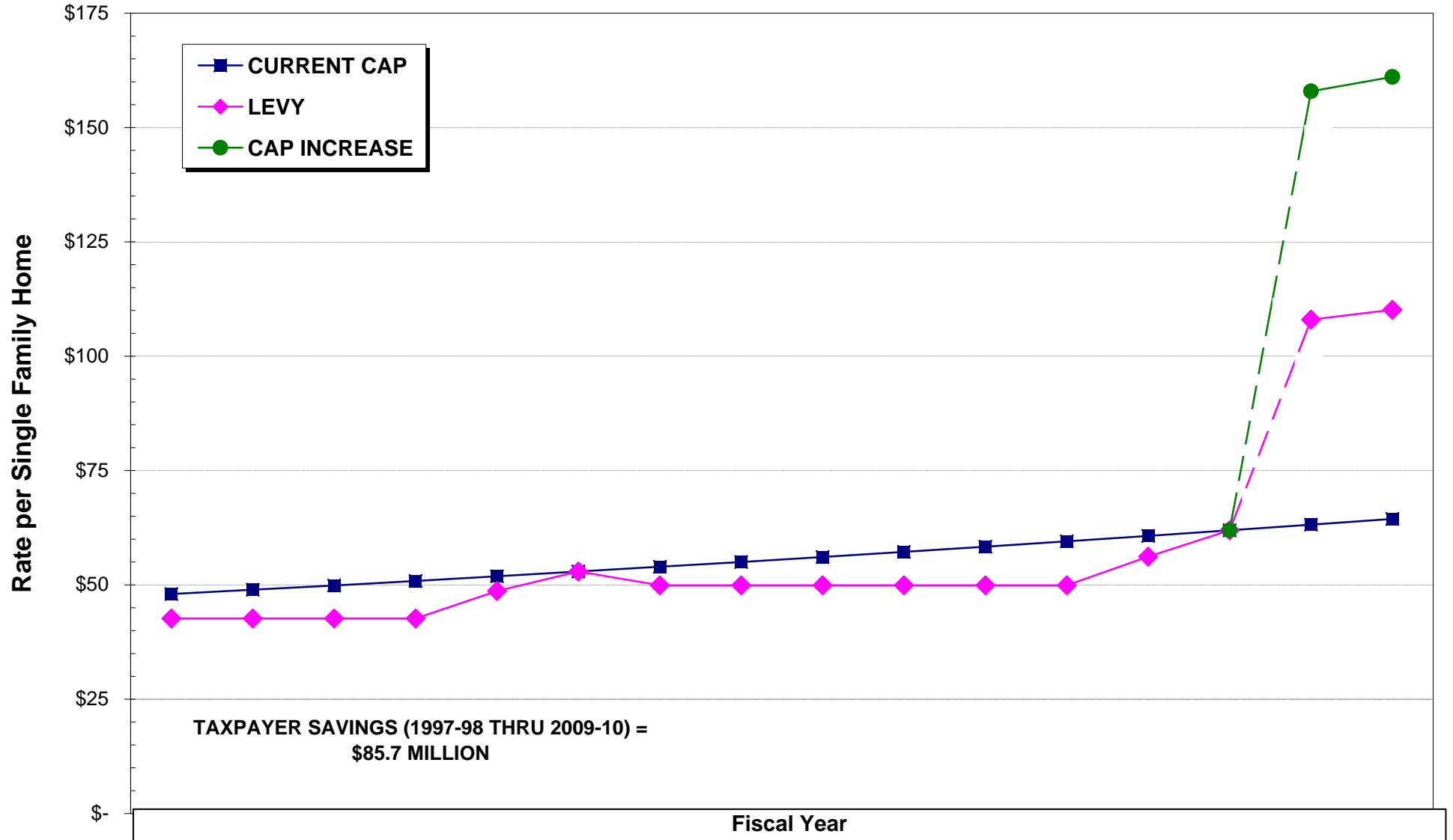
Note: To review the District's financial plans by fiscal year, please see Appendix E.

# Appendix A

## Los Angeles County Fire Department

### History of Special Tax Levy

### Single Family Home Rates



YEAR	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	Current 2009-10	Proposed 2010-11	Proposed 2011-12	Proposed 2012-13
LEVY	\$ 42.66	\$ 42.66	\$ 42.66	\$ 42.66	\$ 48.66	\$ 52.93	\$ 49.93	\$ 49.93	\$ 49.93	\$ 49.93	\$ 49.93	\$ 49.93	\$ 56.17	\$ 61.93	\$ 108.00	\$ 110.16
EXISTING CAP	\$ 48.00	\$ 48.96	\$ 49.87	\$ 50.87	\$ 51.89	\$ 52.93	\$ 53.99	\$ 55.00	\$ 56.10	\$ 57.22	\$ 58.36	\$ 59.53	\$ 60.72	\$ 61.93	\$ 63.17	\$ 64.43
NEW SUPPLEMENTAL CAP (WITH VOTER APPROVAL)															\$ 157.93	\$ 161.09

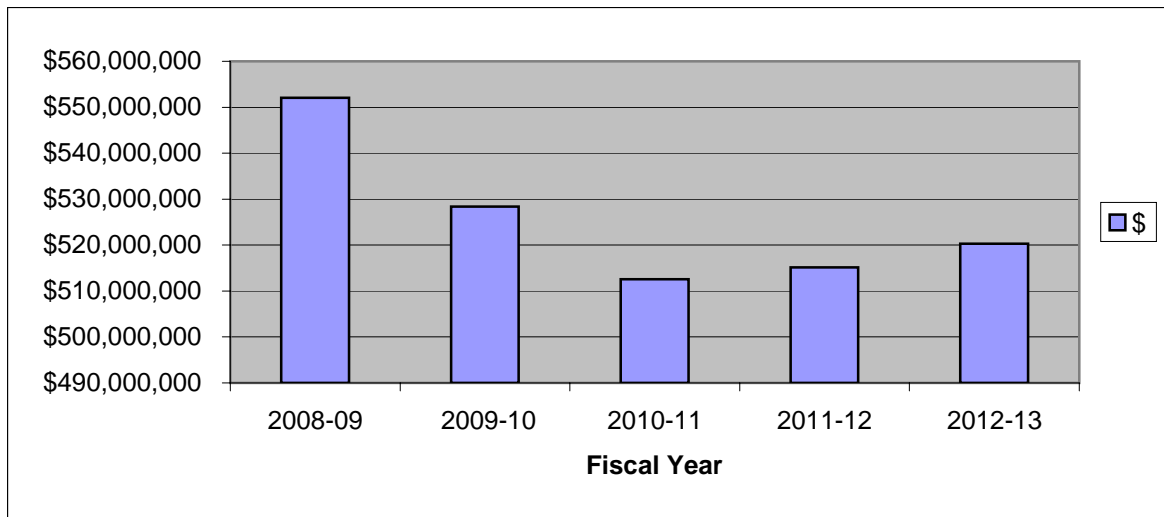
Capped rates from 2010-11 to 2012-13 assume a 2% increase per year.



## Appendix B

### Los Angeles County Fire Department Property Tax Projections

Fiscal Year	\$	Change From Prior Year	Percentage Change From Prior Year	Change From 2008-09 Level
2008-09	\$552,090,000			
2009-10	\$528,349,000	(\$23,741,000)	-4.30%	(\$23,741,000)
2010-11	\$512,559,000	(\$15,790,000)	-2.99%	(\$39,531,000)
2011-12	\$515,122,000	\$2,563,000	0.50%	(\$36,968,000)
2012-13	\$520,273,000	\$5,151,000	1.00%	<u>(\$31,817,000)</u>
Accumulated Total				<b>(\$132,057,000)</b>



## Appendix C

### Los Angeles County Fire Department Expenditure Freezes and Curtailments

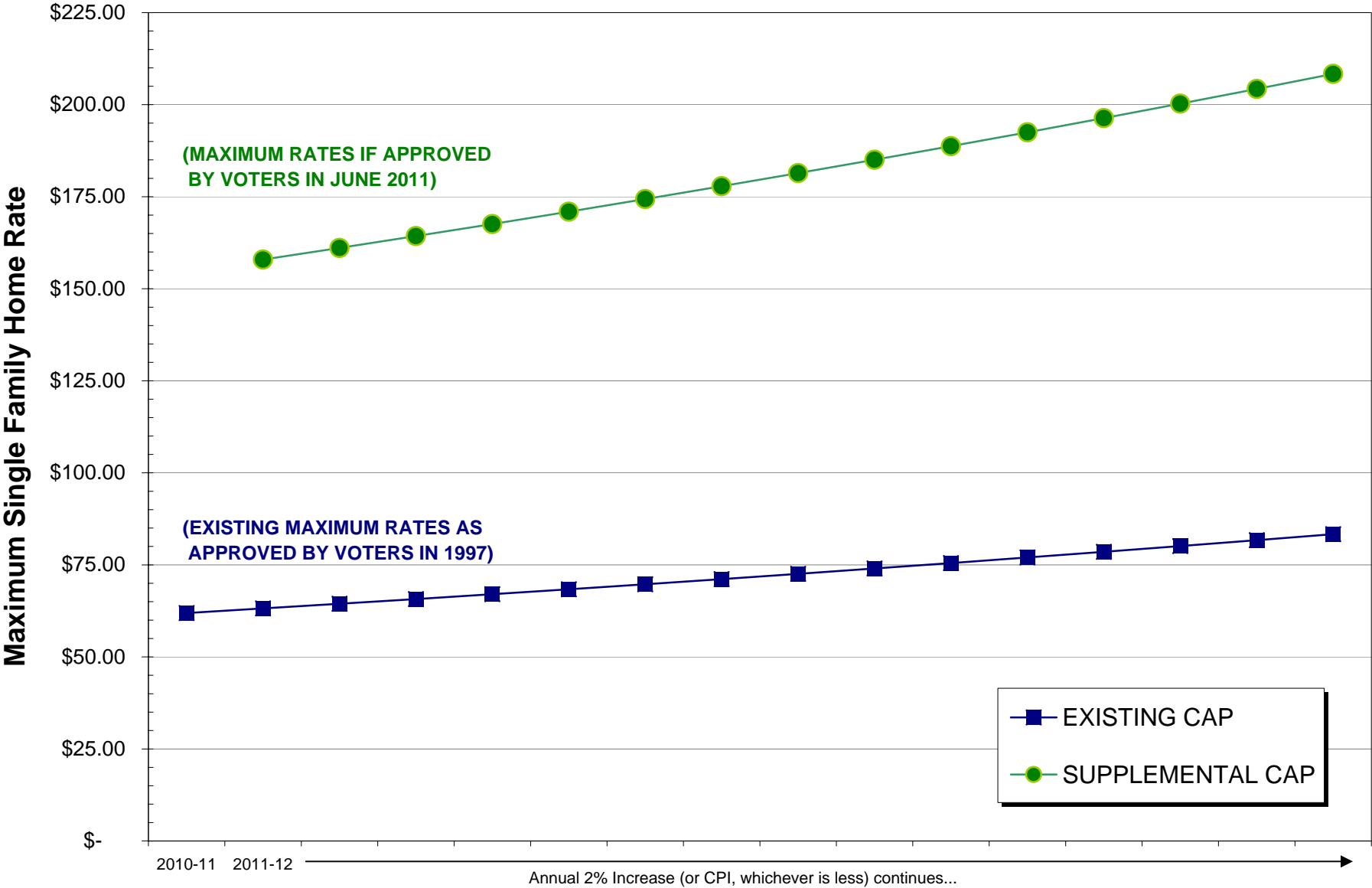
***The Fire District implemented and continues several freezes and cost curtailments in 2008-09 totaling \$22.6 million. These savings are included in the District's fiscal forecast through 2012-13.***

- Continuing the freeze on vacant non-emergency positions
- Continuing the freeze on all non-essential Services and Supplies
- Continuing the reduction of non-essential travel/training
- Continuing the deferral of the 4-person staffing
- Reassigning of staff battalion chiefs to activate needed field battalion
- Reducing overtime related to special assignments
- Reducing overtime related to recruit training
- Downsizing of Department bureaus from seven to six

Through 2012-13, these curtailments will provide a cumulative savings of approximately \$113 million. These savings are factored into our projections that are summarized in Appendix B.

Other means of generating cost savings will be aggressively pursued and implemented while still meeting our financial objectives.

Los Angeles County Fire Department  
Special Tax Maximum Rate  
2% Increase Illustration



## Appendix E

### Los Angeles County Fire Department Projected Funding Problems and Solutions (\$ in Millions)

#### **2009-10**

Problem: \$(-47.6)

Solution: \$ 97.6

Projected Ending Fund Balance 6/30/10: \$50.0

#### **Problem Elements \$(-47.6)**

- Carryover problem reflected in Update #2 \$(-23.5)
- Continuing decline in Property Tax, including an additional loss in most recent projections \$(-16.9)
- Decline in other revenue \$(-3.4)
- Settlement and legal fees increase \$(-3.8)

#### **Solution Elements \$97.6**

- Board-approved increase in Special Tax levy \$8.6
- Securitization of Proposition 1A funds \$44.8
- S&S Savings/Curtailments \$12.7
- Cancel helicopter replacement transfer \$3.0
- Cancel Designations \$28.5

Remaining Designations as of 6/30/10: \$98.5

#### **2010-11**

Problem: \$(-89.2)

Solution: \$ 114.5

Projected Ending Fund Balance 6/30/11: \$25.3

#### **Problem Elements \$(-89.2)**

- Carryover Problem reflected in Update #2 \$(-59.7)
- Continuing decline in Property Taxes \$(-22.0)
- Settlement and legal fees increase \$(-4.0)
- Decline in other revenue \$(-3.5)

### Solution Elements \$114.5

- Carryover 2009-10 Fund Balance \$50.0
- Additional curtailments to offset Property Tax decline \$20.0
- Continuation of Board-approved Special Tax increase \$8.6
- Additional Special Tax Levy increase to current cap \$6.9
- Fixed Assets curtailments \$5.3
- Capital Projects curtailments \$3.6
- Cancel helicopter replacement and capital projects transfers \$5.1
- Cancel Designations \$15.0

Remaining Designations as of 6/30/11: \$83.5

### **2011-12**

Problem: \$(-112.1)

Solution: \$ 141.6

Projected Ending Fund Balance 6/30/12: \$29.5

### Problem Elements \$(-112.1)

- Carryover problem reflected in Update #2 \$(-79.2)
- Continuing decline in Property Taxes \$(-22.0)
- Decrease in Other Revenue \$(-8.9)
- Increases in settlement/legal fees and other S&S expenditures \$(-2.0)

### Solution Elements \$141.6

- Carryover Fund Balance \$25.3
- Continuation of 2010-11 curtailments \$20.0
- Continuation of Special Tax levy increases plus CPI adjustment \$17.0
- Fixed Assets curtailments \$5.4
- Capital Projects curtailments \$1.2
- Cancel helicopter replacement and capital projects transfers \$5.1
- Cancel Designations \$15.0
- Increased Special Tax Levy as a result of Supplemental Cap \$52.6

Remaining Designations as of 6/30/12: \$68.5

## **2012-13**

Problem:      \$(-137.0)

Solution:      \$ 150.2

Projected Ending Fund Balance 6/30/13: \$13.2

### **Problem Elements \$(-137.0)**

- Carryover problem \$(-93.5)
- Continuing decline in Property Taxes \$(-22.0)
- S&EB increases \$(-11.6)
- Decline in Other Revenue \$(-7.9)
- Increases in settlement/legal fees and other S&S expenditures \$(-2.0)

### **Solution Elements \$150.2**

- Carryover Fund Balance \$29.5
- Continuation of 2010-11 curtailments \$20.0
- Continuation of 2011-12 Special Tax, including Supplemental Cap, with CPI adjustment \$72.2
- Fixed Assets curtailments \$5.6
- Capital Projects curtailments \$2.8
- Cancel helicopter replacement and capital projects transfers \$5.1
- Cancel Designations \$15.0

Remaining Designations as of 6/30/13: \$53.5